



AUDITOR - GENERAL
SOUTH AFRICA

The Accounting Officer
Gert Sibande District Municipality
P.O. Box 1784
Ermelo
2350

30 November 2014

Reference: 07334REG13/14

Dear Sir,

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Gert Sibande District Municipality for the year ended 30 June 2014

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



.....
Deputy Business Executive: Mpumalanga Business Unit

Enquiries: Vusumuzi Gcaba
Telephone: (013) 756 0800
Fax: (013) 756 0879

Auditor's report

Gert Sibande District Municipality

30 June 2014

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Gert Sibande District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Gert Sibande District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. GRAP 13 *Leases* requires entities to recognise assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statement of financial position. The municipality entered into a finance sale and lease back agreement for a building with its subsidiary. The lease contract did not include the lease term and the interest rate relating to the lease. I was unable to determine the amount of the finance leased building, finance lease obligation, and deferred lease profit on sale and lease back by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the finance lease asset, finance lease obligation of R22 089 606 (2013: R22 910 009) and deferred profit of R2 528 600 (2013: R2 917 024).
7. The municipality subsequently classified the finance lease building referred to above as a non-current asset held for sale. Non-current assets held for sale were thus overstated by R30 700 000 (2013: R32 530 000). Consequently, I was unable to determine whether any further adjustments were necessary to the depreciation and accumulated depreciation.
8. Assets selected from the fixed asset register to the value of R4 729 913 could not be physically verified. Consequently, the property, plant and equipment of R331 869 737 (2013: R331 313 278) disclosed in note 8 to the financial statements and the statement of financial position as well as the depreciation expense of R17 790 219 (2013: R16 731 178) disclosed in note 27 to the statement of financial performance was misstated.

Qualified opinion

9. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Gert Sibande District Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

11. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

Additional matter

12. I draw attention to the matters below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

13. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - KPA 2: basic service delivery and infrastructure development on pages ... to ...
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priority. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected development priority are as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

Consistency of objectives, indicators and targets

21. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% of the reported objectives, indicators and targets were not consistent with those in the approved annual performance plan, integrated development plan and service delivery agreement. This was due to a lack of standard documented policies and procedure manuals for planning and reporting on predetermined objectives.

Additional matter

22. I draw attention to the following matter:

Achievement of planned targets

23. Refer to the annual performance report on pages XX to XX and ... to ... for information on the achievement of the planned targets for the year.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements, performance report and annual report

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements of current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified opinion.

Conditional grants and transfers

26. The allocation of the municipal systems improvement grant was not spent in accordance with the applicable grant framework, in contravention of section 16(1) of DoRA.
27. The municipality did not evaluate its performance in respect of programmes or functions funded by the allocation of the local government financial management grant, as required by section 12(5) of DoRA.

Expenditure management

28. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

29. An adequate management, accounting and information system was not in place to account for debtors, as required by section 64(2)(e) of the MFMA.
30. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.
31. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Procurement and contract management

32. Contracts were awarded to providers listed on the National Treasury's database as persons prohibited from doing business with the public sector, in contravention of supply chain management regulation 38(1)(c).

Human resource management and compensation

33. An acting chief financial officer was appointed for a period of more than three months without the approval of the member of the executive council for local government, in contravention of section 54A(2A) of the MSA.

Consequence management

34. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
35. Irregular expenditure was not always recovered from the liable person, as required by section 32(2) of the MFMA.

Asset management

36. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
37. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

38. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

- 39. The accounting officer did not adequately review the monthly reports or the financial statements and annual performance report prior to their submission for auditing.
- 40. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Financial and performance management

- 41. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
- 42. Management did not review and monitor compliance with applicable laws and regulations.
- 43. The financial statements were subject to material amendments resulting from the audit.

Other reports

Investigations

- 44. An independent consulting firm performed an investigation at the request of the municipality, which covered the period 1 July 2012 to 30 June 2013. The investigation was initiated based on an allegation of the possible misappropriation of the municipality's assets. The investigation concluded on 11 August 2014 and did not result in criminal proceedings against the employees involved.

Auditor - General

Mbombela

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence